

Message Text

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44

ACTION NEA-10

INFO OCT-01 ISO-00 EUR-08 AID-05 CIAE-00 COME-00 EB-04

FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-06

SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 AGR-05 SCI-02

DODE-00 PM-03 H-01 L-01 NSC-05 PA-01 PRS-01 SS-15

USIA-06 DRC-01 SWF-01 IGA-01 /092 W

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R 160908Z OCT 74

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 4582

INFO AMEMBASSY BONN

AMEMBASSY ISLAMABAD

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E.O. 11652: N/A

TAGS: EAID, EFIN, BG, GW

SUBJ: FRG/BANGLADESH AID AND DEBT AGREEMENTS FOR 1974

1. A TEN-MAN FRG DELEGATION, HEADED BY DR. FRANZ KLAMSER, SECRETARY, MINISTRY OF PLANNING, VISITED DACCA SEPTEMBER 24 TO OCTOBER 3, TO DISCUSS DEBT AND AID QUESTIONS. AN FRG EMBOFF PROVIDED OCTOBER 10TH THE FOLLOWING REPORT ON THE RESULTS OF THE DELEGATION'S VISIT.

2. THREE AGREEMENTS WERE SIGNED RESOLVING OUTSTANDING ISSUES IN THE AREAS OF (1) FRG ASSISTANCE TO BANGLADESH FOR CY 1974; (2) COMMERCIAL DEBT REPAYMENTS; AND (3) PUBLIC DEBT LIABILITIES (VIS-A-VIS PAKISTAN). THE VISIT WAS THUS SUCCESSFUL IN THAT ITS MAJOR PURPOSES WERE ALL ACCOMPLISHED.

3. FRG ASSISTANCE FOR CY 1974. ON SEPTEMBER 30, A LOAN AGREEMENT FOR DM 90 MILLION (ABOUT \$37.5 MILLION) WAS SIGNED, PROVIDING DM 65 MILLION FOR UNTIED COMMODITY IMPORTS AND DM 25 MILLION FOR LIMITED OFFICIAL USE

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PROJECTS. THE ONLY STIPULATIONS CONCERNING THE COMMODITY IMPORTS

PROVIDE THAT NONE OF THE FUNDS WILL BE SPENT ON MILITARY EQUIPMENT OR LUXURY GOODS. THE LOANS ARE REPAYABLE OVER 50 YEARS, WITH 10 YEARS GRACE AND INTEREST AT 0.75 PERCENT, FOR A GRANT ELEMENT OF 84 PERCENT. THE PROJECT LOANS WILL BE DEVOTED TO ONGOING PROJECTS INCLUDING A PULP PLANT IN SYLHET AND THE EQUIVALENT OF \$10 MILLION FOR THE ASHUGANJ FERTILIZER PLANT. THE PROJECT PIPELINE NOW TOTALS ABOUT DM 48 MILLION, INCLUDING SOME DM 6 MILLION FOR THE BANGLADESH SHILPA BANK (WHICH RELEND TO LOCAL INDUSTRIES). IN ADDITION TO THE DM 90 MILLION IN LOANS, THE FRG WILL PROVIDE ON GRANT BASIS 8,000 TONS OF WHEAT AND 10,000 TONS OF UREA FERTILIZER VALUED AT DM 4 AND DM 9 MILLION RESPECTIVELY. THESE LOANS AND GRANTS, ADDED TO THE GRANT OF 30,000 TONS OF WHEAT AT A COST OF NEARLY DM 15 MILLION ANNOUNCED EARLIER IN SEPTEMBER AND A PREVIOUS 9/8.

TECHNICAL ASSISTANCE GRANT BRING TOTAL FRG BILATERAL ASSISTANCE TO BANGLADESH IN CY 1974 TO DM 142 MILLION, OR ABOUT \$51 MILLION. THIS COMPLETES FRG BILATERAL AID TO BANGLADESH FOR CY 1974. INCIDENTALLY, THE 30,000 TONS OF GRANT WHEAT MAY BE SOLD THROUGH THE RATION SHOPS AND THE BDG HAS UNRESTRICTED USE OF THE LOCAL CURRENCY PROCEEDS. (THE FRG EMBOFF NOTED THIS UNRESTRICTED USE OF THE PROCEEDS MAY WELL BE CHANGED IN ANY LATER FRG AGREEMENTS).

4. COMMERCIAL DEBTS. THE BDG ACCEPTED LIABILITY FOR SOME (UN-SPECIFIED) SMALL AMOUNT OF COMMERCIAL DEBTS TO FRG FIRMS, AS WELL AS LIABILITY FOR CERTAIN FRG INSURANCE PAYMENTS.

5. PUBLIC DEBT LIABILITY. THE FRG ALSO REACHED AGREEMENT WITH BDG ON THE LATTER'S LIABILITY FOR REPAYMENT OF FOREIGN PUBLIC DEBTS CONTRACTED BEFORE INDEPENDENCE. BDG ACCEPTED LIABILITY FOR DM 260 MILLION EQUIVALENT. HOWEVER, BDG OFFICIALS ARGUED THAT THE FOREIGN EXCHANGE REPAYMENT LIABILITY ON SOME DM 6.8 MILLION, REPRESENTING RUPEE REPAYMENTS ALREADY MADE AGAINST PREINDEPENDENCE PICIC AND IDBP SUB-LOANS TO EAST PAKISTANI BORROWERS, SHOULD REMAIN A LIABILITY OF PAKISTAN. FRG OFFICIALS AGREED TO RAISE THIS WITH PAKISTANI OFFICIALS; IF PAKISTAN REFUSES LIABILITY (WHICH SEEMS A FOREGONE CONCLUSION), THEN IT IS AGREED BDG MUST PAY. AS A GESTURE TO LIGHTEN THIS BURDEN, THE FRG DELD-589, AGREED TO GRANT THE 8,000 TONS OF WHEAT CITED ABOVE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN ASSISTANCE AGREEMENTS, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: shawdg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974DACCA04680
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740294-0113
From: DACCA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741043/aaaabklu.tel
Line Count: 107
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 13 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 MAY 2002 by boyleja>; APPROVED <18 MAR 2003 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRG/BANGLADESH AID AND DEBT AGREEMENTS FOR 1974
TAGS: EAID, EFIN, BG, GE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005